



**METROPOLITAN ST. LOUIS SEWER DISTRICT
FOLLOW-UP ON STATE AUDITOR'S PRIOR FINDINGS**

**From The Office Of State Auditor
Claire McCaskill**

**Report No. 2003-110
November 13, 2003
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AUDIT REPORT



Office Of The
State Auditor Of Missouri
Claire McCaskill

November 2003

In July 2003, the Metropolitan St. Louis Sewer District requested the State Auditor conduct an audit to verify the implementation status of the recommendations made in the prior audit report.

This audit presents the status of the prior audit recommendations as of September 19, 2003, which is approximately one year after the delivery of the prior report. As of this date, the Metropolitan St. Louis Sewer District has either implemented or is in the process of implementing over 90 percent of our prior recommendations.

Our previous audit made 42 management recommendations to the district. Of those recommendations, 28 (67 percent) have been implemented, 10 (24 percent) have been partially implemented and 4 (9 percent) have not been implemented by the district.

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YELLOW SHEET

METROPOLITAN ST. LOUIS SEWER DISTRICT
FOLLOW-UP ON STATE AUDITOR'S PRIOR FINDINGS

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STATE AUDITOR'S REPORT



CLAIRE C. McCASKILL
Missouri State Auditor

Honorable Bob Holden, Governor
and
Board of Trustees
Metropolitan St. Louis Sewer District
2350 Market Street
St. Louis, MO 63103

We have audited the Metropolitan St. Louis Sewer District. The scope of this audit included, but was not necessarily limited to, the year ended June 30, 2003. The objective of this audit was to follow-up on the status of recommendations made in our previous report issued for the two years ended June 30, 2001 (report number 2002-88).

Our audit was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances. In this regard, we reviewed minutes of meetings, written policies, financial records, and other pertinent documents and interviewed various personnel of the district.

Our audit was limited to the specific matter described above and was based on selective tests and procedures considered appropriate in the circumstances. Had we performed additional procedures, other information might have come to our attention that would have been included in this report.

The accompanying History, Organization, and Statistical Information is presented for informational purposes. This information was obtained from the district's management and was not subjected to the procedures applied in the audit of the district.

The accompanying Follow-Up On Prior Audit Findings presents the audit status of the prior recommendations made in our previous audit of the Metropolitan St. Louis Sewer District.

A handwritten signature in black ink, reading "Claire McCaskill". The signature is fluid and cursive, with the first name "Claire" written in a larger, more prominent script than the last name "McCaskill".

Claire McCaskill
State Auditor

September 19, 2003 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits:	Thomas J. Kremer, CPA
Audit Manager:	John Blattel, CPA, CFE
	Toni Crabtree, CPA
Audit Staff:	Monique Williams, CPA
	Kate Petschonek
	Brenda Simpson

EXECUTIVE SUMMARY

METROPOLITAN ST. LOUIS SEWER DISTRICT
FOLLOW-UP ON STATE AUDITOR'S PRIOR FINDINGS
EXECUTIVE SUMMARY

In May 2001, the State Auditor was requested by the Honorable Bob Holden, Governor, under Section 26.060, RSMo 2000, to audit the Metropolitan St. Louis Sewer District (district). In response to this request, on September 12, 2002, the Missouri State Auditor's Office issued audit report No. 2002-88, Metropolitan St. Louis Sewer District, two years ended June 30, 2001. (A copy of the complete audit report can be obtained from Missouri State Auditor's Office, P.O. Box 869, Jefferson City, MO 65102-0869, or on the internet at www.auditor.state.mo.us.)

In July 2003, the district requested the State Auditor to conduct an audit to verify the implementation status of the recommendations made in the prior audit report. This audit presents the status of the implementation of the prior recommendations. The district has either implemented or is in the process of implementing over 90 percent of our prior recommendations. Our previous audit made 42 management recommendations to the Metropolitan St. Louis Sewer District. Of those recommendations, 28 (67 percent) have been implemented, 10 (24 percent) have been partially implemented and 4 (9 percent) have not been implemented by the district.

FOLLOW-UP ON PRIOR AUDIT FINDINGS

METROPOLITAN ST. LOUIS SEWER DISTRICT
FOLLOW-UP ON STATE AUDITOR'S PRIOR RECOMMENDATIONS

This section reports follow-up action taken by the Metropolitan St. Louis Sewer District on recommendations made in the Management Advisory Report (MAR) on our report issued for the two years ended June 30, 2001.

1. Billing and Collection Policies, Procedures, and Records

Significant weaknesses were noted in the district's billing and collection policies, procedures and records.

- A. The district had not developed formal written policies and procedures outlining specific steps and criteria to be followed for its billing and collection activities. The lack of detailed written policies, procedures, and adequate training contributed to other problems noted with billings and collections.
- B. Adjustments to customer accounts, including writing-off delinquent account balances, were not always properly authorized and the supporting documentation for adjustments/write-offs was generally not sufficient.
 - 1. Account comments did not adequately justify the rate change for ten adjustments reviewed, and the rate calculation was not supported. These adjustments were to recalculate the sewer rate for metered residential customers based upon the previous winter quarter usage. In addition, the documentation of approval (adjustment card) for adjustments between \$100 and \$1,000 was not retained after the adjustment was posted.
 - 2. Certain adjustments posted to customer accounts were not properly approved and/or authorized and supported by adequate documentation which fully explained the reason for the adjustments. These adjustments included write-offs for delinquent charges that were uncollectable, incorrect water readings, settlement on past due amounts, and sheriff sales.
 - 3. Although the authorization forms for adjustments in excess of \$1,000 were prenumbered, the forms were not accounted for and the form number was not recorded in the customer account. Also, the adjustment cards indicating approval of adjustments between \$100 and \$1,000 were not prenumbered and accounted for properly, and were not retained after the adjustment was posted to the customer account. Additionally, although a daily report of all adjustments was prepared, documentation of review/approval for adjustments less than \$1,000 was not maintained.
 - 4. The district had not established any computer access limits for adjustments made by billing/collection personnel.

5. The accounts and amounts adjusted and/or written-off by the credit committee were not reported to the Board of Trustees.
 6. Water was not shut-off timely and in accordance with district policy for thirteen of thirty accounts reviewed, which were written-off for delinquent balances. The district coordinated the water shut-off with either the city or county water entities.
 7. The district did not always write-off delinquent account balances in a timely manner. Five instances were noted where it was in excess of one year before the district wrote-off a delinquent balance due to a sheriff's sale and/or foreclosure.
- C. Liens were not placed on customer accounts in a consistent manner. The inconsistencies between the district's ordinance, policy and general practices relating to liens contributed to the problem.
- D. The collection agency selected as a Disadvantaged Business Enterprise (DBE) firm did not appear to meet the qualifications of a DBE. In addition, the district did not adequately monitor the collection agencies' activities. Generally, the only reports provided by the collection agencies were the weekly invoices for services, which included basic information.

Recommendation:

The Board of Trustees:

- A. Develop written policies and procedures outlining specific steps and criteria to be followed for billing and collection activities.
- B.1
- &2. Ensure that all adjustments are properly authorized. In addition, adequate documentation which fully explains the reason for the adjustment should be retained.
3. Ensure that adjustment authorization forms are prenumbered, accounted for properly, and retained. In addition, the authorization number should be posted to the customer account for an audit trail. Also, the Director or Assistant Director of Finance should review/approve the daily adjustment report.
4. Establish computer access limits for district personnel who post adjustments to the customer accounts.
5. Ensure that significant adjustments and write-offs of delinquent charges are periodically reported to the Board.

6. Coordinate with the appropriate water entity to ensure that water is shut-off and/or the sewer connection is closed in accordance with district ordinance.
 7. Ensure delinquent charges are written-off in a timely manner.
- C. Ensure that policies and procedures for filing liens are clearly defined and followed by district personnel.
- D.1. Determine the status of the DBE collection agency, and terminate the agreement with the firm, if necessary.
2. Require the collection agencies to provide periodic status reports. In addition, these reports should be monitored to ensure the agencies' efforts are sufficient and effective.

Status:

A,B.1,
2,5,7,
C.&

D.2. *Partially implemented. The district is making progress in implementing these recommendations. To improve its billing and collection activities, the district outsourced these activities. In July 2003, the district signed a contract with a new vendor to provide certain customer care and billing services. In addition, the collection services were bid and the district entered into agreements with four agencies in July 2003.*

The district also started a "clean-up" effort to identify and resolve delinquent accounts and developed written policies and procedures for certain activities such as the winter quarter calculation (for 2003), sewer shut-off process (effective July 2003), liens process (effective July 2003), and oversight of collection agencies (effective July 2003).

Although the district has made a significant effort to improve its maintenance of account records, our review of twenty-five adjustments, noted the approval of and/or the reasons for the adjustment was not always documented, some accounts were not written off timely, and a lien had not been filed for some accounts, as needed. Also, during our review of the Board's Finance and Audit Committee minutes, it appears that significant adjustments and write-offs of delinquent charges were not reported on a consistent basis.

B.3.&

D.1. *Implemented.*

B.4&

6. *Not implemented. Although the district's current system does not allow the district to limit access for district personnel who post adjustments to customer accounts, district personnel indicated this issue would be addressed with the new computer system. The district did not shut-off sewer service, if applicable. The shut-off of sewer service requires the cooperation of the water companies involved. However, as part of the clean-up effort, the district is actively identifying accounts needing shut-off and sending notification.*

2. Real Property Acquisition and Relocation Assistance Program

The district had significant problems with the management of its Real Property Acquisition and Relocation Assistance (buyout) Program for the Ashland Abner neighborhood in the City of St. Louis.

- A. A Request for Proposal (RFP) was not used by the district to procure the firm which was used for negotiation and relocation services.
- B. The contract for the negotiation and relocation services was not approved by the Board and was not signed by the Executive Director.
- C. The district paid the invoices for the negotiation and relocation services without requiring adequate supporting documentation.
- D. It appeared that neither the district nor the firm handling the negotiation and relocation services maintained a detailed and complete status report of the activity for each piece of property.

Recommendation:

The Board of Trustees:

- A. Ensure that proposals are solicited for professional services related to future buyout programs.
- B. Ensure all contracts for professional services related to future buyout programs are approved by the Board and signed by the Executive Director.
- C. Require adequate supporting documentation be obtained for all disbursements and that the documentation is reviewed for completeness and propriety.
- D. Require that a complete and detailed status report is maintained for each piece of property in future buyouts.

Status:

Implemented.

The district improved its oversight and management of the buyout program. Our review of the program noted that the district solicited proposals and/or bids for its professional services, obtained written and properly signed and approved agreements for these services, and maintained a status report of the activity for each piece of property.

3. **Legal Services**

Generally, the district obtained legal services to supplement its legal staff when the work load for the district's staff was high and/or when specific areas of expertise were needed. The district's legal services costs were \$1,346,207 and \$1,903,002 for fiscal year 2001 and 2000, respectively. For each of these years, over 65 percent of the cost was for outsourced legal services.

- A. It appeared the district did not prepare a cost comparison of the estimated costs of in-house counsel versus outsourcing. In addition, the cost of legal services was not evaluated on a periodic basis. The district paid Doepken, Keevican and Weiss (DKW) over \$1.8 million for services between November 1999 and February 2001.
- B. For fiscal year 2001, 2000 and prior years, the district did not prepare RFPs when procuring legal services, nor did the district request approval of the legal service arrangements from the Board of Trustees. In addition, written agreements were generally not prepared.
- C. The district did not ensure that adequate invoices and supporting documentation were submitted for legal services. The invoices did not always include the hourly rate for each attorney, the time spent on each task, or a summary of total hours by each attorney. In several instances, only a summary of various tasks was listed with an amount due. Additionally, no supporting documentation was submitted for airfare, travel expenses, and other costs. Also, no supporting documentation was submitted for work performed by other professionals hired by law firms.
- D. There was no documentation justifying the need for manual checks written to law firms. It appeared the district's standard uniform procedures for manual checks were circumvented to benefit the firms rather than the district as a whole.

Recommendation:

The Board of Trustees:

- A. Ensure the district needs justify the cost of outsourcing legal services and periodically review this cost to ensure the outsourcing continues to be cost effective.
- B. Ensure RFPs are prepared for legal services. The agreement should be in writing and approved by the Board of Trustees.
- C. Obtain adequate supporting documentation for legal service invoices.
- D. Ensure that the district's check policy is strictly followed.

Status:

Implemented.

The district decreased its legal costs for fiscal years 2003 and 2002 from the amounts incurred in fiscal years 2001 and 2000 by 54% and reduced the use of outside legal counsel for the same time periods by 85%.

For fiscal years 2003 and 2002, the legal costs totaled \$710,866 and \$760,095, with outside legal costs of \$126,487 (18 percent) and \$193,733 (25 percent), respectively.

Currently, the district is seeking the recovery of \$138,844 related to subcontracted work obtained and invoiced by DKW.

4. **Professional Services**

The district needed to improve its process of procuring and monitoring most of its professional services (excluding engineering services). The district used professional services for areas such as real estate appraisal, public relations, training programs, general investment and advisory services, computer programming, financial audits, pension consulting, and rates consulting.

- A. The district did not seek the Board's approval for an amendment which involved substantial changes to a contract that drastically increased the contract price. The amendment, totaling over \$400,000 to a consulting contract almost doubled the original contract price.
- B. It was unclear if the district's television advertisements, "The More You Know" was a reasonable or necessary use of district funds. These advertisements did not inform, educate, or convey any relevant information about the district and/or its operations.

- C.1. The district procured some services without issuing RFPs and evaluating the proposals. We noted agreements, totaling over \$400,000, where the consultant was chosen because the district was satisfied with the consultant's previous work for the district.
- 2. The district did not reissue RFPs for its collection services in a timely manner, and could not provide any documentation of written consent to extend these contracts for over five years. The district's policy provided that professional service contracts should not be extended beyond five years.
- 3. Written evaluations of the proposal were not always prepared and/or retained. In addition, written contracts were not always prepared.
- D. The supporting documentation for invoices was not always adequate. In addition the supporting documentation and invoices were not always sufficiently reviewed before payment of the invoice. The district did not usually request and/or receive supporting documentation for expenses such as mileage, copying, postage, and telephone. Also, there were instances where the hourly rate did not agree with the district's fee schedule or where the invoice was not mathematically correct.
- E. The district did not consistently code similar expenditures to the same object code in its accounting system, and it appeared that some expenditures should have been charged to a more appropriate object code.

Recommendation:

The Board of Trustees:

- A. Ensure contract amendments are approved by the Board for contracts which were originally approved by the Board.
- B. Ensure that advertisements are necessary, reasonable, and benefit the district.
- C. Solicit proposals for professional services on a timely basis to the extent practical. The proposals should be formally evaluated and retained. In addition, written contracts should be prepared to formalize these agreements.
- D. Ensure that supporting documentation is received for all charges and reviewed for propriety before payment.
- E. Ensure expenditures are charged to appropriate object codes.

Status:

Implemented.

During our review of the procuring and monitoring of professional services (excluding engineering services), we did not observe any contract amendments which needed board approval. Currently, the district is drafting a new policy for the procurement of non-engineering professional services.

Also, we noted two of ten expenditures did not appear to be charged to the appropriate object code. However, the district is conducting, at a minimum, two reviews a year of random sampling of object codes to monitor accuracy of procedures. The district's review for the period of December 2002 to May 2003 determined that only 2 of 190 expenditures were coded to the wrong general ledger number.

5. Expenditures

- A. Disbursements such as donations, charity banquets, awards, diversity breakfast/luncheons and the employee incentive program did not appear to be a prudent, reasonable, or a necessary use of district funds or necessary and essential to the operation of the district. In addition, the supporting documentation for these disbursements did not always indicate the business purpose and/or identify those people attending.
- B. The district provided an open bar at certain functions, which is not appropriate for a political subdivision.
- C. Greater controls needed to be established to ensure only valid vendors were entered on the district's payment system. Personnel in three departments had the computer capability to add vendors to the system.

Recommendation:

The Board of Trustees:

- A. Ensure disbursements are necessary and prudent uses of public funds, provide a benefit to the district and do not violate state law or the state constitution.
- B. Discontinue the practice of providing an open bar at district sponsored events.
- C. Evaluate the controls over vendor records and consider reducing the number of people with access to these computer records. New vendor codes should be periodically reviewed by someone in a supervisory position.

Status:

- A. *Partially implemented. Although the district no longer provides donations to other entities, the district still provides benefits to employees. In fiscal year 2003, the district spent approximately \$22,900 and \$49,000 for employee service awards/banquet and incentive program, respectively. However, district personnel*

indicated the incentive program was eliminated in fiscal year 2004. In addition, the district still holds diversity breakfasts/luncheons for vendors; however, the participants pay for their meals.

B&C. Implemented.

6. Construction Projects

The district needed to improve its construction reports to provide more accountability to the public. The district did not routinely track and compare construction projects and their estimated cost to awarded costs. In addition, the reasons for the variances were not documented. Also, the district did not prepare reports which tracked and compared the awarded construction costs with the actual costs incurred.

Recommendation:

The Board of Trustees require the preparation of construction reports to better monitor its construction projects and to provide greater accountability to the public. Project cost estimates should be updated as new information becomes available. The district should track and periodically compare cost estimates to contract amounts and compare the contracted amounts with the actual costs incurred. In addition, the reasons for the variances should be documented.

Status:

Implemented.

During fiscal year 2003, seventy-three projects were completed. Overall, the contract (bid) amounts were approximately 15 percent less than the estimates and the actual costs of these projects were approximately 4 percent less than the bid amounts. For the fifty-two projects let in fiscal year 2003, the overall bid amounts were approximately 7 percent less than the engineering estimates.

The district prepares a report which provides a comparison for each project of actual construction cost to the original estimated cost, project cost estimate to the contract bid, and the contract bid to the final actual construction cost, as applicable. This report is included on the district's website and is updated quarterly. However, the reasons for the variances are not included in the report. According to district personnel, reasons for variances would be explained in change orders maintained in the project files.

7. Expense Reimbursements

The supporting documentation for the district's business expense reports (particularly for business meals and credit card charges) was not always adequate.

- A. The supporting documentation for business meals for non-district personnel recorded on expense reports did not always include the specific business purpose and/or guest(s).
- B. Documentation supporting credit card charges, such as expenses for hotels, meals, and car rentals, was not adequate. Usually, only the credit card statement and the signed charge slip were submitted for reimbursement.
- C. Generally a copy of the airline ticket was not attached to the expense report to support air travel. In addition, the business reason, if any, for upgrades (converting coach fare to first class) was not documented.
- D. Some lodging appeared excessive. There were instances when lodging was over the federal per diem and/or Runzheimer lodging rate. In addition, there was no documentation to indicate if these lodging charges were government/conference rates or why it was necessary to pay these rates.

Recommendation:

The Board of Trustees:

- A. Require all employees to submit proper documentation for meal expenses for non-employees, including the name(s) of the guest(s) and the business purpose for meals.
- B. Require credit card charges be supported by the actual charge receipts.
- C. Require a copy of the flight ticket stub be attached to the expense report. In addition, the business reason and necessity for flight upgrades should be documented.
- D. Adopt the federal per diem rate and/or another reasonable lodging rate and require a business reason and written explanation as to the reason it was necessary to incur lodging which exceed these rates.

Status:

Implemented.

Our review of twenty-four travel and business expense reimbursements indicated that supporting documentation appeared adequate. We did not observe any flight upgrades in our review. In addition, the district's business expense policy, adopted February 2003, provides that lodging charges are to be within the federal per diem rate and justification is required for any lodging exceeding the federal rates. Acceptable justification includes conference hotel and unavailability of room.

8. District Policies and Procedures

- A. The district had not established a limit on the maximum amount of unused accrued sick leave paid when an employee left the district. As part of the district's Compensation Plan, the district paid vested employees who retired, died, or left the district a portion of his/her unused accrued sick leave at the rate of 1.25 percent for each year of employment.
- B. The district had not established a formal written districtwide policy on record retention and document destruction. The district's informal shredding policy only described the type of material allowed, such as office paper, computer paper, etc., not the type of records which should be shredded such as confidential payroll records and personnel records. Also, a log for confidential records was not maintained to document the records being shredded, the date of destruction, or authorization/approval.
- C. A current list of related employees and employees with secondary employment was not maintained and monitored by the Office of Human Resources. Although the employment application required the applicant to disclose relatives already employed at the district, the Office of Human Resources did not review for conflicts when an employee moved to a different job and/or location. This was left to the individual department. In addition, employees who engaged in secondary employment only requested and received prior approval from their respective department.

Recommendation:

The Board of Trustees:

- A. Consider establishing a limit on the amount of unused accrued sick leave paid when a vested employee leaves the district.
- B. Establish a formal written policy for record retention and destruction. In addition, a destruction log for confidential records should be maintained to document the records being destroyed, the date of destruction, and authorization/approval.
- C. Establish policies and procedures to identify and monitor instances where employees are related to each other and ensure those individuals are not working in conflicting employment capacities. Each employee should complete an annual questionnaire identifying relatives working for the district. In addition, the Office of Human Resources should be notified when secondary employment is approved by the various departments. This information could also be requested using the same annual questionnaire as the questionnaire regarding relatives working at the district.

Status:

- A. *Not implemented. During fiscal year 2003, the district paid \$620,758 to vested employees for their unused accrued sick leave. Eight employees received payments over \$25,000, and one additional employee received over \$130,000 for his unused sick leave.*
- B. *Partially implemented. The district is currently working with the Office of Secretary of State to refine its retention policy. Since the district does not have a policy some departments maintain a destruction log, while other departments do not.*
- C. *Implemented.*

9. **Vehicle Fleet**

- A. The district changed its policy which no longer allowed 31 employees to use district vehicles for commuting. It did not appear necessary and/or appropriate that the district compensated employees for turning in district vehicles used solely for commuting purposes. The district paid over \$76,000 to thirty-one employees who turned in district vehicles used for commuting prior to July 2002.
- B. Vehicle usage logs were not maintained for many district vehicles. At certain district yards, there were no usage logs for pool vehicles and/or for vehicles assigned to specific individuals. When vehicle logs were maintained, the logs were not always properly completed, including the odometer readings, destination, and purpose.

Recommendation:

The Board of Trustees:

- A. Document its analysis and calculation to support its justification and the benefit to the district for payments to employees due to revisions of district policies.
- B. Require standard usage logs be completed and maintained for all district vehicles. The logs should include beginning and ending odometer readings, purpose of the trip, person making the trip, destination and date of travel. The ending mileage reported should be reconciled on a periodic basis to the vehicle odometer readings.

Status:

- A. *Implemented. We did not note any vehicle policy change(s) which resulted in additional compensation to employees.*

- B. *Partially implemented. The district requires a vehicle request form and sign out sheet be completed for pool vehicles. However, no mileage log is required for vehicles assigned to specific individuals. The district's current inventory report indicated 141 of 346 vehicles were assigned to specific employees.*

10. Meetings and Ordinances

- A. Formal written minutes were not prepared for closed meetings during fiscal years 2001 and 2000. However, the district later started preparing minutes for closed meetings.
- B. The board minutes, ordinances and resolutions maintained by the Secretary-Treasurer were not signed by the Secretary-Treasurer and/or Chairman of the Board of Trustees on a timely basis. These documents were not signed by the Secretary-Treasurer or Chairman since the latter part of 1999 or first half of 2000, respectively.
- C. The District needed to codify its ordinances and resolutions related to the policies and procedures of the district. It was difficult to determine which ordinances/resolutions were currently in effect regarding district policies and procedures because individual ordinances/resolutions dated back to when the district was originally established, and included issues unrelated to the policies and procedures of the district.

Recommendation:

The Board of Trustees:

- A. Ensure minutes are prepared for all closed meetings.
- B. Require the Secretary-Treasurer and Chairman of the Board of Trustees to sign board minutes, ordinances, and resolutions to attest to their accuracy and completeness, in a timely manner.
- C. Consider the codification of the district's ordinances and resolutions.

Status:

A&B. Implemented.

- C. *Not implemented. Although the district's individual ordinances/resolutions are maintained in a computerized database, the district cannot readily determine which ordinances or resolutions are currently in effect regarding district policies and procedures.*

11. Fixed Assets

The district did not conduct a physical inventory of its fixed assets on a timely basis. As of March 2001, a physical inventory had not been performed for over two years for 9 of 15 locations. In addition, we noted some items were not numbered, tagged, or otherwise identified as district property. Also, the individual performing the physical inventory was also responsible for recording and accounting for the fixed assets.

Recommendation:

The Board of Trustees ensure an annual physical inventory is conducted of all fixed assets and the results of the inventory be reconciled to the detailed property records. Property control tags should be affixed to all fixed asset items. In addition, the physical inventory should be conducted by persons independent of those having record-keeping or custodial duties.

Status:

Implemented.

The district conducts physical inventories of its various locations on a rotating basis so that all locations are inventoried on an annual basis. Although the inventories are conducted by an individual having record-keeping duties, there appears to be supervisory review of her work.

12. Inventory Records and Procedures

- A. The district allowed employees to use some district property (i.e. compressors, chain saws, electric jack hammers) for personal use. In addition, the check out list did not always include the date and time returned.
- B. The district's inventory records were not accurate and the value of the inventory could not be readily determined. The cost of numerous items was not recorded in the inventory records, and some items showed a negative number as on-hand. District personnel indicated there could be many obsolete items in inventory.
- C. The district did not conduct periodic physical inventories on a regular basis to identify the difference between the physical count and inventory records.
- D. The inventory control function was not adequately segregated. The inventory control personnel at each location generally performed all functions associated with the district's inventory at that location.

Recommendation:

The Board of Trustees:

- A. Ensure district property is used only for district business.
- B,C,
&D. Ensure inventory records are accurately maintained. To help accomplish this, the district should conduct periodic physical inventories on a regular basis and investigate discrepancies in inventory counts. In addition, inventory duties should be segregated, there should be a supervisory review of reconciliations and/or adjustments, and someone independent of the inventory function should perform annual inventory counts.

Status:

- A. *Implemented. The district's policy, adopted March 2003, provides that equipment, tools, and materials are not to be borrowed for personal use. However, with management approval, these items may be used to fulfill the district's mission and goals such as household hazardous waste collection or earth day events.*
- B,C,
&D. *Partially implemented. We noted improvement in the district's inventory system. A physical inventory on certain items in the storerooms is conducted every 90, 180, or 360 days and spot checks are conducted weekly at the garage. However, there are still many items with a zero value recorded on the inventory. Although inventory control functions are not segregated at each location, the district has established a review system for reconciliations/adjustments.*

HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

METROPOLITAN ST. LOUIS SEWER DISTRICT
FOLLOW-UP ON STATE AUDITOR'S PRIOR FINDINGS
HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

The Metropolitan St. Louis Sewer District is organized pursuant to Article VI, Section 30 of the Missouri Constitution and is a political subdivision of the state. The district was created in 1954 to provide a metropolitan-wide integrated sewer system to serve the city of St. Louis and parts of the county of St. Louis. In 1977, the district annexed most of the county of St. Louis, not already part of the system. The district service area now includes a system of sanitary, storm water and combined sewers totaling more than 8,700 miles of pipes and channels covering more than 524 square miles, serving approximately 1.4 million customers.

The district is governed by a six-member appointed Board of Trustees with equal representation from the city and county. A three-member Civil Service commission serves in an advisory position on problems concerning personnel administration. The Charter (Plan) which established the district was amended by voters in 2000. The amended Plan established an independent fifteen-member rate commission to review adjustments to the district's user charges before the Board of Trustees acts on them. Another major change in the Plan gave the district the authority to issue revenue bonds on a districtwide basis.

The Board of Trustees enacts district ordinances, determines policies, and appoints the Executive Director, the Secretary-Treasurer, and the Internal Auditor. The Executive Director appoints all other district officials and employees.

The Board of Trustees and other principal officials at June 30, 2003 were:

<u>Board of Trustees</u>	<u>Term Expires</u>	<u>Actual Compensation the Year Ended June 30, 2003</u>
Robert J. Baer, Chairman	March 2006	
Claude Brown, Vice Chairman	March 2006	
Dee Joyce-Hayes, Member	March 2004	
Marian A. Rhodes, Member	March 2005	
Bart J. Margiotta, Member	March 2005	
Joan M. Swartz, Member	March 2004 (1)	\$ 50
Mary Gassmann Reichert	(1)	358
Thomas W. Purcell	(2)	550
Carolyn D. Seward	(2)	500
John W. Siscel	(2)	325
Anthony J. Soukenik	(2)	(3)
Michael C. Williams	(2)	375
<u>Other Principal Officials</u>		
Charles Etwert, Acting Executive Director	(4)	180,641
Karl Tyminski, Secretary-Treasurer		119,868
Randy Hayman, General Counsel		155,571
Bernardine Rivers, Director of Diversity	(5)	87,341
Vicki Edwards, Director of Human Resources		97,531
Don Moschenross, Director of Administration	(6)	134,700
Janice Zimmerman, Director of Finance		110,715
Bernie Rains, Director of Environmental Compliance	(7)	109,591
Bruce Kozozenski, Director of Risk Management	(8)	75,924
Robert Butchko, Director of Engineering	(9)	146,401
Jeff Theerman, Director of Operations	(10)	137,753
Ollie Dowell, Director of Public Affairs	(11)	80,195
Gene Rhodes, Interim Internal Auditor	(12)	74,129

The amounts presented for the Board of Trustees represent compensation for attending meetings. These trustees receive compensation of \$25 for each day on which he/she attends a regular or special meeting. Trustees are paid in December of each year for that years' compensation. In addition, trustees are reimbursed for their necessary and reasonable expenses incurred in the discharge of their duties.

- (1) Ms. Swartz was appointed to the Board October 8, 2002 to fill the vacancy due to Ms. Reichert's resignation effective July 31, 2002.

- (2) At the request of the Mayor of the city of St. Louis and the County Executive of St. Louis County these trustees resigned from the Board effective March 6, 2003.
- (3) Mr. Soukenik directed his 2003 compensation totaling \$425 to charity.
- (4) Mr. Etwert retired from the district effective October 1, 2003. He had assumed the duties of Acting Executive Director when the Board did not renew Willie Horton's (Executive Director) contract on September 6, 2002.
- (5) Ms. Rivers retired from the district effective July 1, 2003. This position was reclassified to Manager of Diversity effective July 1, 2003.
- (6) This position was eliminated effective July 1, 2003. Mr. Moschenross received additional severance compensation totaling \$84,750.
- (7) This position was reclassified to Assistant Director of Engineering/Environmental Compliance effective July 1, 2003. Mr. Rains retired from the district effective August 1, 2003.
- (8) This position was reclassified to Manager of Risk Management effective July 1, 2003.
- (9) Mr. Butchko retired from the district effective October 1, 2003.
- (10) Mr. Theerman assumed the duties of Acting Executive Director effective October 1, 2003.
- (11) Ms. Dowell was hired August 26, 2002. Her annual salary was \$95,112. This position was eliminated effective July 1, 2003. Ms. Dowell received severance compensation totaling \$7,316.
- (12) Mr. Rhodes was appointed Interim Internal Auditor effective January 23, 2003. His annual salary is \$100,000 while functioning in this position.

An organization chart effective July 1, 2003 follows:

METROPOLITAN ST. LOUIS SEWER DISTRICT
ORGANIZATION CHART

